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June 23, 2006

Public Service Commission
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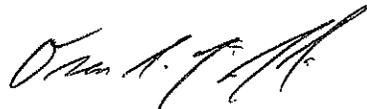
PUBLIC SERVICE
COMMISSION

Re: Case No. 2005-00471

To Whom It May Concern:

Enclosed please find for filing the original and ten (10) copies of the Midwest ISO's Reply to LG&E/KU's Response to the Renewed Motion for Full Intervention. Please file-stamp the extra copy and place it in the self-addressed, stamped envelope to be returned to my office. Thank you for your time.

Sincerely,



Oran S. McFarlan

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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JUN 26 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

Application of Louisville Gas and Electric
Company and Kentucky Utilities Company to
Transfer Functional Control of their
Transmission System

Case No. 2005-00471

**Reply to Louisville Gas and Electric Company's and Kentucky Utilities Company's
Response to the Midwest Independent Transmission System Operator's
Renewed Motion for Full Intervention**

In reply to Louisville Gas and Electric Company's ("LG&E") and Kentucky Utilities Company's ("KU") Response to the Midwest Independent Transmission System Operator's ("Midwest ISO") Renewed Motion for Full Intervention, filed June 21, 2006, Midwest ISO states the following:

1. In their Response, LG&E and KU continually stress that a final order has been issued in Case No. 2003-00266, and per the December 12, 2005 Order ("12/12/05 Order"), the Commission must expedite its review in this proceeding.¹ However, Case No. 2003-00266 has not reached an ultimate disposition. The Commission did enter a final order on May 31, 2006 ("5/31/06 Order"), but in a subsequent Order, filed June 13, 2006 ("6/13/06 Order"), the Commission initiated an investigation of the accounting and rate-making provisions in the 5/31/06 Order contained in a Stipulation of facts filed by LG&E and KU.² A hearing is to follow this investigation.³ Furthermore, the matter is clearly still open in light of the Midwest ISO's Application for Rehearing in

¹ LG&E and KU's Response at 1-2; 12/12/05 Order at 1-2.

² 6/13/06 Order at 2.

³ 6/13/06 Order at 2.

Case No. 2003-00266.⁴ Since a final decision has yet to be entered in Case No. 2003-00266, LG&E's and KU's request for an expedited review in this matter is premature.

2. A significant amount of confusion exists as to what arguments need to be made in which proceeding. The Midwest ISO was granted full intervention in Case No. 2003-00266 and is attempting to intervene in this proceeding for similar reasons: to have the ability to be heard on matters that affect its operations. Interestingly, if an argument regarding the transfer is made in Case No. 2003-00266, the Midwest ISO has the opportunity to reply; however, if the same argument is made in this proceeding, the Midwest ISO currently cannot offer a response or submit evidence. Such a distinction between the two proceedings is illogical, especially in light of the Commission's determination that the outcome of this matter is dependent upon the outcome of Case No. 2003-00266.⁵

Moreover, LG&E's and KU's Fourth Amended Application, filed June 22, 2006, in no way reduces the confusion discussed here and in the Midwest ISO's Renewed Motion for Intervention. The Application's "conditional nature" only serves to emphasize the uncertainty as to what issues are to be addressed in which proceeding. The Midwest ISO seeks to eliminate this confusion by being made a party to both proceedings, thus allowing for an opportunity to be heard on all issues affecting its operations in both proceedings.

3. The Midwest ISO's participation in this proceeding would help achieve such a goal. A determination of whether LG&E and KU should be authorized to transfer functional control of their facilities from the Midwest ISO to the Tennessee Valley Authority ("TVA") and Southwest Power Pool ("SPP") involves a comparison of

⁴ Midwest ISO's Application for Rehearing was filed contemporaneously with this Reply.

⁵ 12/12/05 Order at 1-2.

the *status quo* with the proposed plan. Contrary to LG&E's and KU's belief, all parties involved in the potential transfer of control are not in possession of "essentially the same data."⁶ Making a decision based solely on the information provided by LG&E, KU, TVA, and SPP omits a significant amount of pertinent information and, in point of fact, will slow the decision-making process by forcing the Commission to review the *status quo* from incomplete data.

4. LG&E and KU argue that "because MISO is not a consumer of [LG&E's and KU's] power ... it has no interest in the Companies retail rates or service and no right to intervene in this Case."⁷ As support for this argument, LG&E and KU cite the Commission's May 26, 2005 Order in Case No. 2005-00053 ("5/26/05 Order"), denying EnviroPower, LLC, intervention in a proceeding involving Eastern Kentucky Power Cooperative, Inc.⁸ However, LG&E and KU misinterpret the holding of the 5/26/05 Order. EnviroPower was merely an "unsuccessful bidder in a competitive power solicitation," and thus had no interest in the rates or service of East Kentucky Power.⁹ On the other hand, LG&E and KU are members of the Midwest ISO; therefore, the Midwest ISO has an economic interest in the rates charged by LG&E and KU and the overall service they provide. The relationship between the Midwest ISO and LG&E/KU is far more than "an unsuccessful bidder." The organizations are legally (and physically) interconnected such that their activities affect each other in the pocketbook

⁶ LG&E and KU's Response at 5.

⁷ LG&E and KU's Response at 6-7.

⁸ LG&E and KU's Response at 7.

⁹ *In the Matter of: Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, for the Construction of a 278 MW (nominal) Circulating Fluidized Bed Coal Fired Unit and Five 90 MW (Nominal) Combustion Turbines in Clark County, Kentucky*, Case No. 2005-00053, 5/26/05 Order at 4.

and otherwise. As a result, the holding in the EnviroPower case is not instructive in this proceeding, and the Midwest ISO has the right to intervene.

5. LG&E and KU also allege that the Midwest ISO wants to intervene for the purpose of creating “nearly endless litigation of these cases,” thereby disrupting and complicating the matter.¹⁰ This allegation is baseless. First, the issues involved in this proceeding and Case No. 2003-00266 are complicated. The involvement of all parties affected by the decision is needed to clarify positions and seek out the most reasonable resolution. Second, the Midwest ISO undeniably has an interest in the transfer of control of two of its members to TVA and SPP. By attempting to participate in this process and provide the Commission with “fresher data”, the Midwest ISO in no way seeks to delay or further complicate this matter. As LG&E and KU point out, the Midwest ISO is currently working with LG&E, KU, TVA, and SPP to coordinate the possible transfer.¹¹ These are not the actions of a party attempting to complicate and delay matters. To the contrary, the Midwest ISO’s participation in discussions with LG&E, KU, TVA, and SPP shows its interest in the potential transfer and thus its interest in this proceeding.

¹⁰ LG&E and KU’s Response at 4.

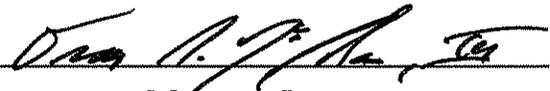
¹¹ LG&E and KU’s Response at 5.

Respectfully submitted,

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CERTIFICATE OF FILING AND SERVICE

I hereby certify that on the 23rd day of June, 2006, the original and ten (10) copies of this Reply were mailed, first-class and postage-prepaid, for filing to the Commission, an electronic copy was e-mailed to counsel of record, and a copy was mailed, first-class and postage-prepaid, to:

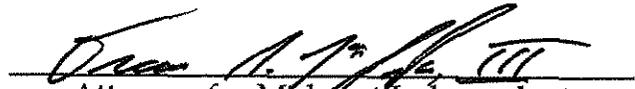
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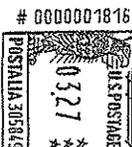
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